



OFFICE OF  
INSURANCE COMMISSIONER

In the Matter of	)	No. G05-81
	)	
The Financial Examination of	)	FINDINGS, CONCLUSIONS,
<b>FIRST CHOICE HEALTH PLAN, INC.</b>	)	AND ORDER ADOPTING
	)	REPORT OF EXAMINATION
A Registered Health Care Service	)	
Contractor.	)	

**BACKGROUND**

An examination of the financial condition of **FIRST CHOICE HEALTH PLAN, INC.**, (the Company) as of December 31, 2003, was conducted by examiners of the Washington State Office of the Insurance Commissioner (OIC). The Company holds a Washington certificate of registration as a health care service contractor. This examination was conducted in compliance with the laws and regulations of the state of Washington and in accordance with the procedures promulgated by the National Association of Insurance Commissioners and the OIC.

The examination report with the findings, instructions, and recommendations was transmitted to the Company for its comments on August 11, 2005. The Company responded on September 1, 2005, with a request for hearing regarding objections to the examination report. The Company and OIC have resolved the request for hearing through stipulations which have been entered in the hearing file.

The Commissioner or a designee has considered the report, the relevant portions of the examiners' work papers, and the submissions by the Company.

Subject to the right of the Company to demand a hearing pursuant to Chapters 48.04 and 34.05 RCW, the Commissioner adopts the following findings, conclusions, and order.

**FINDINGS**

Findings in Examination Report. The Commissioner adopts as findings the findings of the examiners as contained in pages 1 through 15 of the report.

FIRST CHOICE HEALTH PLAN, INC.  
Order Adopting Examination Report

## CONCLUSIONS

It is appropriate and in accordance with law to adopt the attached examination report as the final report of the financial examination of **FIRST CHOICE HEALTH PLAN, INC.**, and to order the Company to take the actions described in the Instructions sections of the report. The Commissioner acknowledges that the Company may have implemented some of the Instructions prior to the date of this order. The Instructions in the report are appropriate responses to the matters found in the examination.

## ORDER

The examination report as filed, attached hereto as Exhibit A, and incorporated by reference, is hereby ADOPTED as the final examination report.

The Company is ordered as follows, these being the Instructions contained in the examination report on pages 1-5.

1. Pursuant to WAC 284-07-050(2), in the years 2001 through 2003, FCHP should have recorded surcharges of \$891,770 in conformity with statutory accounting practices. According to SSAP No. 70, paragraph (8), this requires recording such expenses on a cost basis. Since the cost basis was not used, SSAP No. 25, paragraph 16, mandates recording them as capital contributions to FCHN, rather than as general and administrative expenses. Instruction 1, Examination Report, page 2.
2. The Company is ordered to comply with RCW 48.43.097, RCW 48.44.095 and WAC 284-07-050(2) which require preparation and filing of financial statements in accordance with the AP&P and the NAIC Annual Statement Instructions. This requires the correct classification of all appropriate expenses as CAE and their further subclassification into cost containment and other claim adjustment expense categories. Instruction 2, Examination Report, page 2.
3. The Company is ordered to comply with RCW 48.43.097, RCW 48.44.095 and WAC 284-07-050(2), which require preparation and filing of financial statements in accordance with the AP&P and the NAIC Annual Statement Instructions. This includes using accurate data for completing all parts of the NAIC Annual Statement Schedules. Instruction 3, Examination Report, page 3.
4. The Company is ordered to comply with RCW 48.13.340 which requires that "No investment, loan, sale or exchange thereof shall ... be made ... unless authorized or approved by its board of directors or by a committee charged ... with the duty of making such investment, loan, sale or exchange." Instruction 4, Examination Report, page 3.

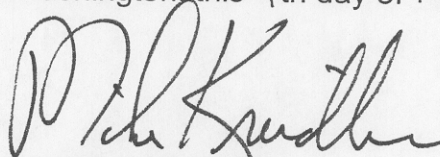


5. The Company is ordered to comply with RCW 48.13.350, which states that, "As to each investment or loan of the funds of a domestic insurer a written record in permanent form showing the authorization thereof shall be made and signed by an officer of the insurer or by the chairman of such committee authorizing the investment or loan." Instruction 4, Examination Report, page 3.
6. The Company has outstanding checks which qualify as unclaimed property, and is ordered to report them, pursuant to RCW 63.29.170, and to pay them to the state of Washington, in compliance with RCW 63.29.190. Instruction 5, Examination Report, page 3.
7. The Company is ordered to comply with RCW 48.43.097, RCW 48.44.095 and WAC 284-07-050(2) which require preparation and filing of financial statements in accordance with the AP&P and the NAIC Annual Statement Instructions. This requires presenting all specified information in the Notes to Financial Statements. Instruction 6, Examination Report, page 4.
8. RCW 48.94.015 requires that a Company can only conduct business through a reinsurance broker under a written authorization satisfying certain statutory requirements. Since the reinsurance relationships no longer exist, and the Company has tendered its Certificate of Authority for cancellation, retroactive changes are not relevant or necessary. Instruction 7, Examination Report, page 4.
9. The Company is ordered to separately present unpaid claims and IBNR, in compliance with RCW 48.43.097, RCW 48.44.095 and WAC 284-07-050(2) which require preparation and filing of financial statements in accordance with the AP&P and the NAIC Annual Statement Instructions. Instruction 8, Examination Report, page 5.

10. SSAP No. 70 describes certain criteria for expense allocation and RCW 48.44.100 forbids the Company to knowingly file or disseminate any inaccurate financial statements. The Company is ordered to follow the provisions of SSAP No. 70 and to adequately document such allocations, so as to comply with RCW 48.44.100 and with WAC 284-07-050, which requires following the SSAP. Instruction 9, Examination Report, page 5.

IT IS FURTHER ORDERED THAT, the Company file with the Chief Examiner, within 90 days of the date of this order, a detailed report specifying how the Company has addressed each of the requirements of this order.

ENTERED at Tumwater, Washington, this 9<sup>th</sup> day of November, 2005.

A handwritten signature in black ink, appearing to read "Mike Kreidler", is written over the printed name.

MIKE KREIDLER  
Insurance Commissioner